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EXCISE

July 16, 1951

Memorandum for: S/P - Mr. Ferguson
From: S/P - Mr. Krentz
Subject: The Formosa Paper

DEPARTMENT OF STATE A/CDC/MR
REVIEWED BY JP DATE 10 AUG 1981
PORTIONS DENIED AS INDICATED

I went over the Formosa paper of April 30 as you requested. Except for very minor changes, it is quite as pertinent to the present political situation as it was when written. To me it is more urgent that a clear cut policy be formulated on this question now than it was two months ago, because events are tending to freeze situations which may have the most far reaching consequences. We should certainly know what we have in mind for the future before we are committed to programs which may in effect deny us any flexibility later on.

I think that it is just as important to examine carefully the political viability of the island, whether we are regarding it from the standpoint of the cold war or a possible hot war. Where I found myself most unhappy about Bert Marshall's conclusions was in what I considered to be the implicit assumption that if we are going to have to make war against mainland China (limited or otherwise) it would be unnecessary for us to broaden the base and achieve drastic political and military reform of the existing regime. Looking at the facts of our World War II association with the Kuomintang Government, I feel that such an assumption could turn out to be dangerous.

I feel that the basic difficulty we have had on Formosa stems from our failure to keep constantly in mind certain objective facts on which there can be no real disagreement and to have those facts clearly stated in such a form that they could be attached as a supporting annex to the paper which determines the broad policy decision.

Some of these facts are: The White Paper gave only a few examples of the sins of commission and omission of the Nationalist Government which led to the debacle on the mainland. It omitted many too

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shocking to charge to a Government with which we maintain relations. We have in the files many hundreds of telegrams and reports which if summarized would I believe prove conclusively that we would be naive and foolish to expect any fundamental reform from the group responsible for this situation, the same group which today controls the Government on Formosa. While it is quite true that some minor reforms have been made, these reforms have been only in the economic field. In the political and military fields our reports indicate that there is really deterioration.

I have been following closely the reports from Taipei. The following are excerpts from Taipei's Despatch 334, dated June 25, 1951:

"The arrival of the MAAG which might have been expected to strengthen the position of the more democratic elements in the government, seemed so far actually to have given more confidence to the more conservative faction in the Kuomintang. The trend toward the assumption of greater power by this group, which has been noted since the winter of 1950, appeared to have been accelerated in April and May 1951.

"Some observers, chiefly representatives of the minor parties, claimed that the Government was concerned that with the increase in American observers it would become more apparent that only the Kuomintang had any real voice on the political scene, and that the one-party system was the 'basic cause of most existing weaknesses.'

"It was perhaps natural that the Nationalists used the arrival of the MAAG to provide their familiar 'return to the mainland' theme with a more realistic undertone. In his May 14 press conference General Chase emphasized that the announced US policy of the neutralization of Formosa was still in effect, adding 'It is in no way changed by our presence here to advise and assist the Armed Forces of the Chinese Nationalist Government.' Despite this clear and emphatic statement, however, the idea seemed to be spreading that the real purpose of the MAAG was to determine what was required to turn Formosa into a staging area for a Chinese Nationalist assault on the mainland. Many Chinese predicted that even if this were not its present purpose, the inexorable trend of events in the Far East would later demand that it assume such a role.

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"Several apparently reliable reports told of Peace Preservation Headquarters Police searching homes for 'a certain objectionable document put out by USIS' and leaving with the admonition to the occupants that they should not subscribe to or otherwise receive any USIS material. There had been a steady trend for several months in the direction of increased centralized control in government. The more democratic elements, which had reached the height of their influence in the summer and fall of 1950 (although they were by no means the predominating power in the Government) were discouraged and somewhat bitter in May 1951. They felt that partial acceptance of their program during 1950 was chiefly responsible for increased American aid in 1951, and that the present 'high-handed' attitude of the 'totalitarian' elements of the Party were unfair to them and dangerous to the long-term interests of Free China.

"There was considerable evidence, however, that they (the Kuomintang) were giving thought to the possible effects of a substantial increase in the number of observers and advisers on the island. Political indoctrination courses for military and civilian personnel took on a new urgency and thoroughness. The training course for interpreters to work with the MAAG reportedly consisted chiefly of strict political indoctrination."

NOTE: My experience with the former Military Advisory Group on the mainland convinces me that this is a very dangerous situation which can nullify any policy. As our military officers are not selected for any other qualities than their military competence, it would be too much to expect that they should see through a barrage of highly subtle propaganda from the ruling group. The Chinese who will conduct this "indoctrination" will be found by almost all our officers to be charming and seemingly ingenuous, at which game the Chinese have no known equals. The virus introduced into the minds of the unwary is lasting and sometimes permanent. It will be recalled that the figure of 600 officers has been mentioned. At least 500 of these will wag their tails and glide smoothly down the garden path.

"The Governor (American educated K.C. Wu) said that he was powerless under present circumstances to stop this. ('This' referring to police extra-legal actions and interferences with the civil government). He stated to one American

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[REDACTED] There are a number of others still in Peking in the same boat among them Li Chi-sen and Chen Chi-tang, both of whom have wide followings especially in South China.

B/
ED

I understand that there is an aide memoire, drafted at the request of ECA, which will probably go out to Taipei for delivery to the Chinese Government sometime this week. I have not seen it but have been told that it includes many far reaching requests on the Chinese Government looking to the establishment of direct American controls over many phases of Formosa's economy. That it, in effect, gives us pretty complete control of the Chinese Treasury. Whether or not this is a good thing I will not argue here, but since such controls will inevitably carry with them complete responsibility for all that happens, I believe that we should know clearly what we conceive our goals to be. If we wish to make a satellite state out of Formosa, we should certainly go into it with our eyes open and not as the result of an operating decision. It seems to me that even without this control we are accepting, by the military advisory program, responsibilities which we may be unable some day to shed. Although this may not be important I, personally, feel very strongly against creating a satellite mentality which is already beginning to appear among otherwise useful people.

I feel that it is urgent that the staff devote several full days to the Formosa problem before events overtake policy. I have been working with FE on this problem, and on the requirements imposed by NSC 48/5, and there are now ready several papers, mainly drafted by Wallace Stuart, which carry on from where the April Formosa paper left off. These have not yet been approved by FE but I believe should be considered by the staff at the present time. One of these papers is that requested by a memorandum from the NSC Senior Staff last January on the consequences likely to ensue from military and political support of the Generalissimo. The second is upon the implementation of paragraph 11 b of the Asia paper, which states that the United States should "encourage political changes in the Nationalist regime which would increase its prestige and influence in China proper." A third deals with the requirements in the Asia paper to devise means of achieving defection or fragmentation in the Communist regime.

I would be glad, if you wish, to carry on the Formosa paper from where it leaves off, but I believe in this instance it would be better for the staff to have a go at these documents before we attempt a completely definitive paper.

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Right now, the measures being taken seem to be in direct conflict with NSC 48/5.

Kenneth C. Krentz

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